

Council on Postsecondary Education
September 12, 2013

Budget Development Work Group Update
2014-16 Operating and Capital Recommendation

Since mid-April, Council staff has been meeting with campus presidents, chief academic officers (CAOs), chief budget officers (CBOs), and legislative liaisons, as well as, the Council's Budget Development Work Group, to discuss and develop proposals regarding the 2014-16 budget recommendation. This update contains information about the status of budget development discussions through the September 4, 2013 presidents' meeting.

Operating Request

After multiple meetings and conference calls, CPE staff and campus officials have reached general agreement that the following four funding components would further the goals of HB1, are consistent with the Council's Strategic Agenda, and should be presented to the Council for its consideration:

- 1) College and Career Readiness – Funding for this program was requested as part of the Council's 2012-14 budget recommendation, and CPE staff and campus officials are proposing that funding for the program be included as part of the Council's budget request for the upcoming biennium. As currently configured, \$18.4 million would be requested each year of the 2014-16 biennium, with funds being allocated based on numbers of middle and high schools in each institution's service region, K-12 teachers produced, and developmental education students served. Program funds would be used by the institutions to form partnerships with K-12 districts and schools, to implement a Clinical Model of teacher preparation, and to redesign developmental education programs.
- 2) Research and Economic Development – This is a new initiative being developed by campus CAOs, CBOs, and Vice Presidents of Research at UK and UofL, as well as CPE staff, that is designed to create "Clusters of Excellence" in research focus areas that will benefit Kentucky. At this time, it is anticipated that \$15.0 million in recurring funds will be requested for this program each year of the 2014-16 biennium, with two-thirds of that amount being allocated to the University of Kentucky and one-third allocated to the University of Louisville. Program funds will be used to make targeted cluster hires in research focus areas that address pressing state needs, such as obesity and diabetes research or lung cancer research, to encourage collaborative research between UK and UofL, and to increase university-industry partnerships that lead to high-wage job creation.

- 3) Degree Production – This is a new performance funding approach that was developed by a joint work group comprised of campus CAOs, CBOs, and legislative liaisons, and CPE staff. The program provides incentives for institutions to increase the numbers of degrees they confer, which is closely aligned with the Council’s Strategic Agenda and should contribute to attainment of desired state goals for student success. It is anticipated that \$15.0 million will be requested in the first year of the 2014-16 biennium, and that \$30.0 million will be requested in the second year to support the Degree Production fund. Program funds will be distributed based on each institution’s share of total degrees produced for the system, weighted by degree level, with premiums for STEM+H, low-income student, and underrepresented student degrees.
- 4) Adult Learner Initiative – The adult learner degree attainment initiative (HB 265) is a new program that is being developed by multiple CPE staff, CAO, and CBO work groups. The exact dollar amount of the request is not known at this time, although, based on discussions to date among work group members, proposed funding for this initiative could range between \$2.0 million and \$4.5 million. If appropriated, these funds will be distributed among the institutions based on relative participation levels in the Adult Learner Initiative.

Remaining issues to be resolved regarding the Council’s operating budget recommendation include sizing and balancing the overall request. See Attachment A for more details on the 2014-16 operating request.

Capital Request

In addition to the operating request, Council staff has been engaged in discussions with campus presidents, CBOs, and Capital Planning Advisory Board (CPAB) members regarding the Council’s 2014-16 capital recommendation. At this point in the process, there appears to be consensus among campus officials and CPE staff that the same approach that was used in 2012-14 should be used again in 2014-16. At a September 5 meeting of the CPAB, board members endorsed the approach, which:

- Encourages increased investment in asset preservation, resulting in a more appropriate balance of recommended funding among new, renovation, and deferred maintenance projects.
- Provides a method for distributing capital funds among institutions based on campus specific VFA study recommendations and other factors developed in collaboration with the institutions.
- Contains a long-term spending approach (i.e., three-biennia) that represents a realistic mix of funding sources.

- Allows institutions flexibility to use allocated debt service capacity for their highest priority projects.
- Is scalable, so that any level of funding recommended by the Governor and appropriated by the General Assembly could be readily distributed among institutions.

The model proposed in 2012-14 was embraced by the executive branch, the Capital Planning Advisory Board, and the institutions as being a good approach for identifying postsecondary education capital construction needs and distributing capital resources. The Capital Planning Advisory Board has again endorsed the approach for the 2014-16 biennial budget process.

Council staff identified several key issues to be resolved in coming weeks, including sizing of the capital request (some feel the \$1 billion request in 2012-14 may have been excessive), potential revisions to the process for establishing capital priorities (e.g., debt capacity versus projects), and request packaging and communication. See Attachment A for more details on the 2014-16 capital request.